

**Chapter 11:  
Compensation Practices  
(Time – based)**

**THIRD EDITION**

# **HUMAN RESOURCES IN HEALTHCARE**

**Managing for Success**

**Part Three | Compensation & Benefits**



# Third Function: Compensation & Benefits

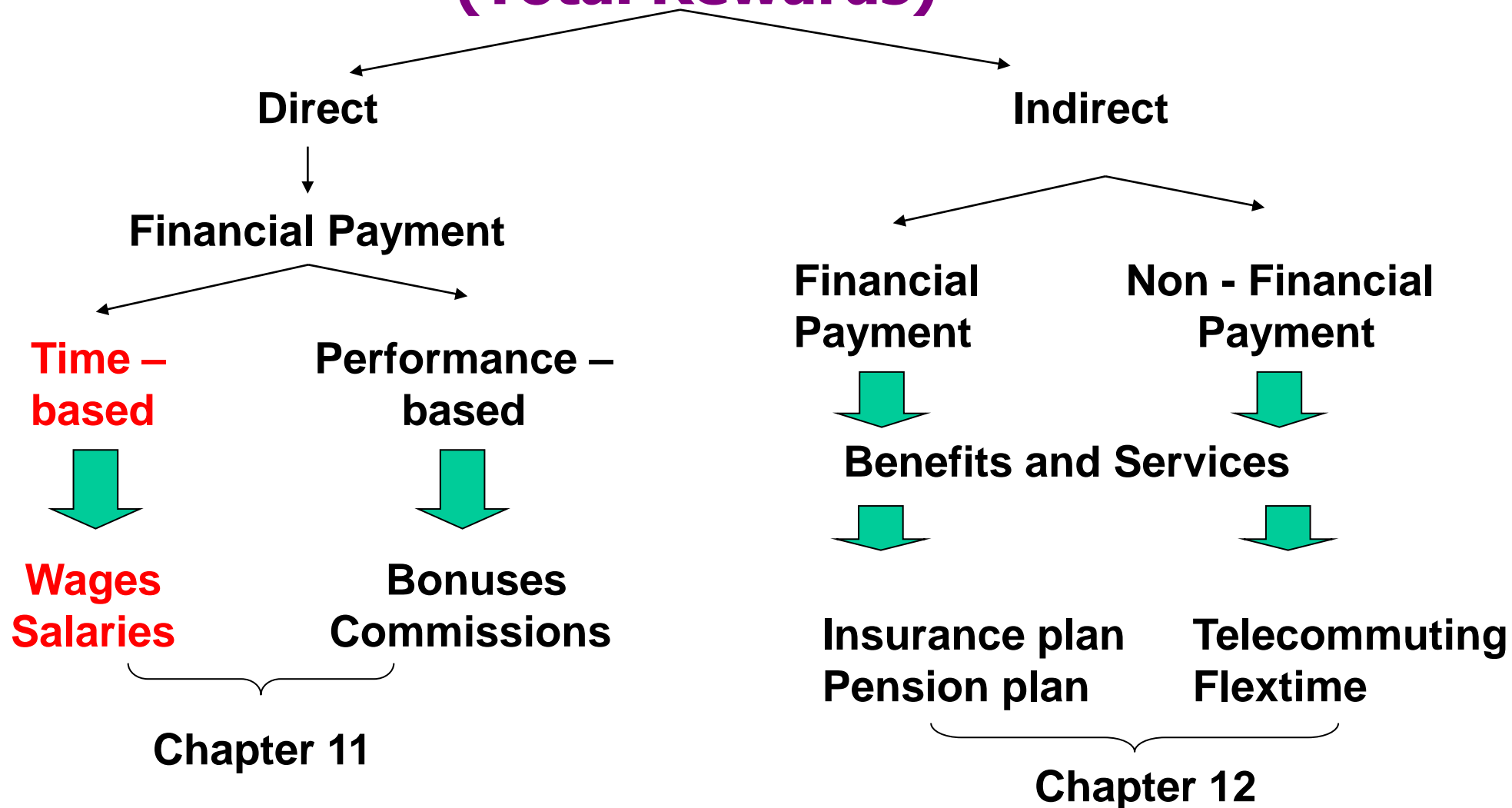


**Compensation Practices**

**Benefits**



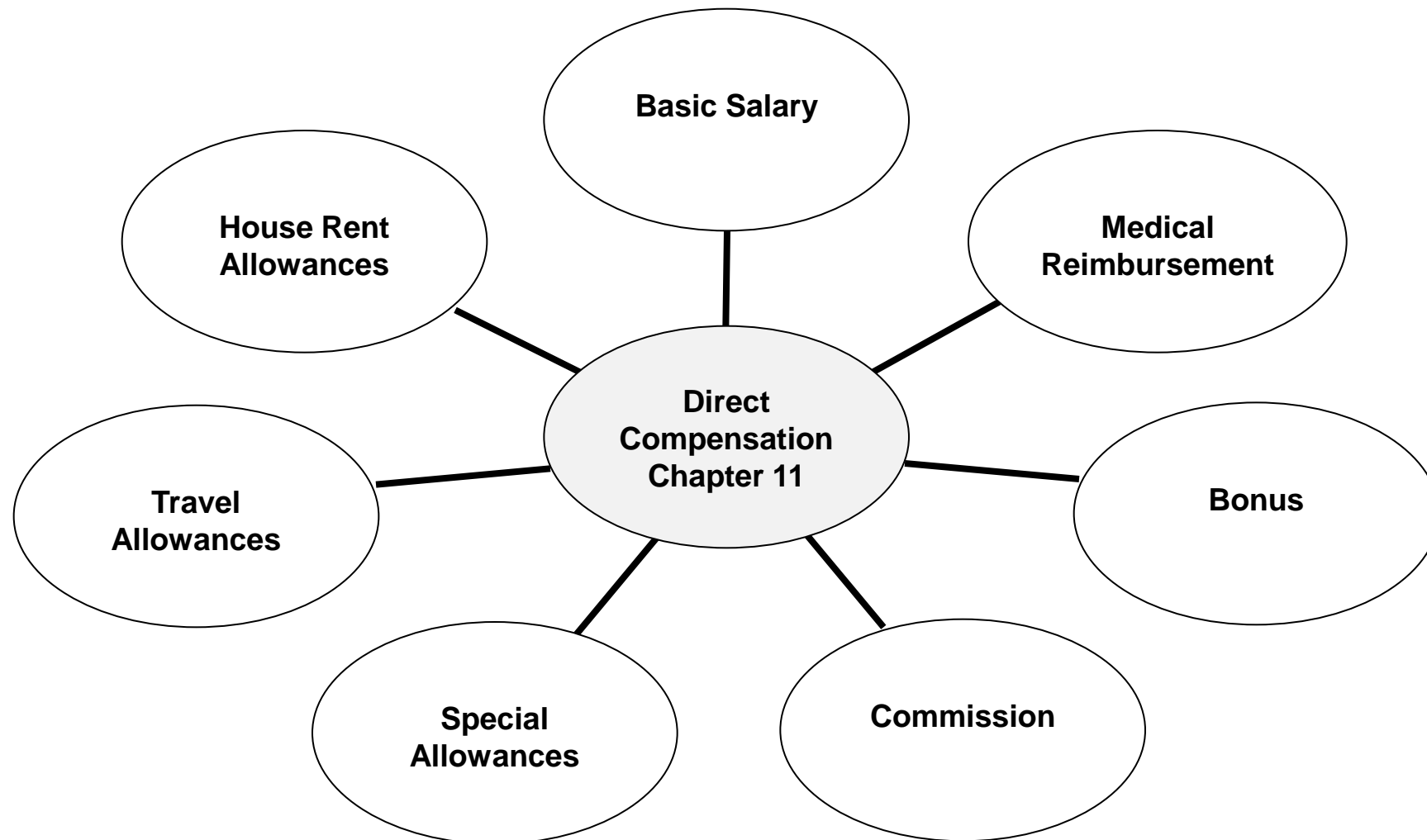
# Employee Compensation (Total Rewards)





# Employee Compensation

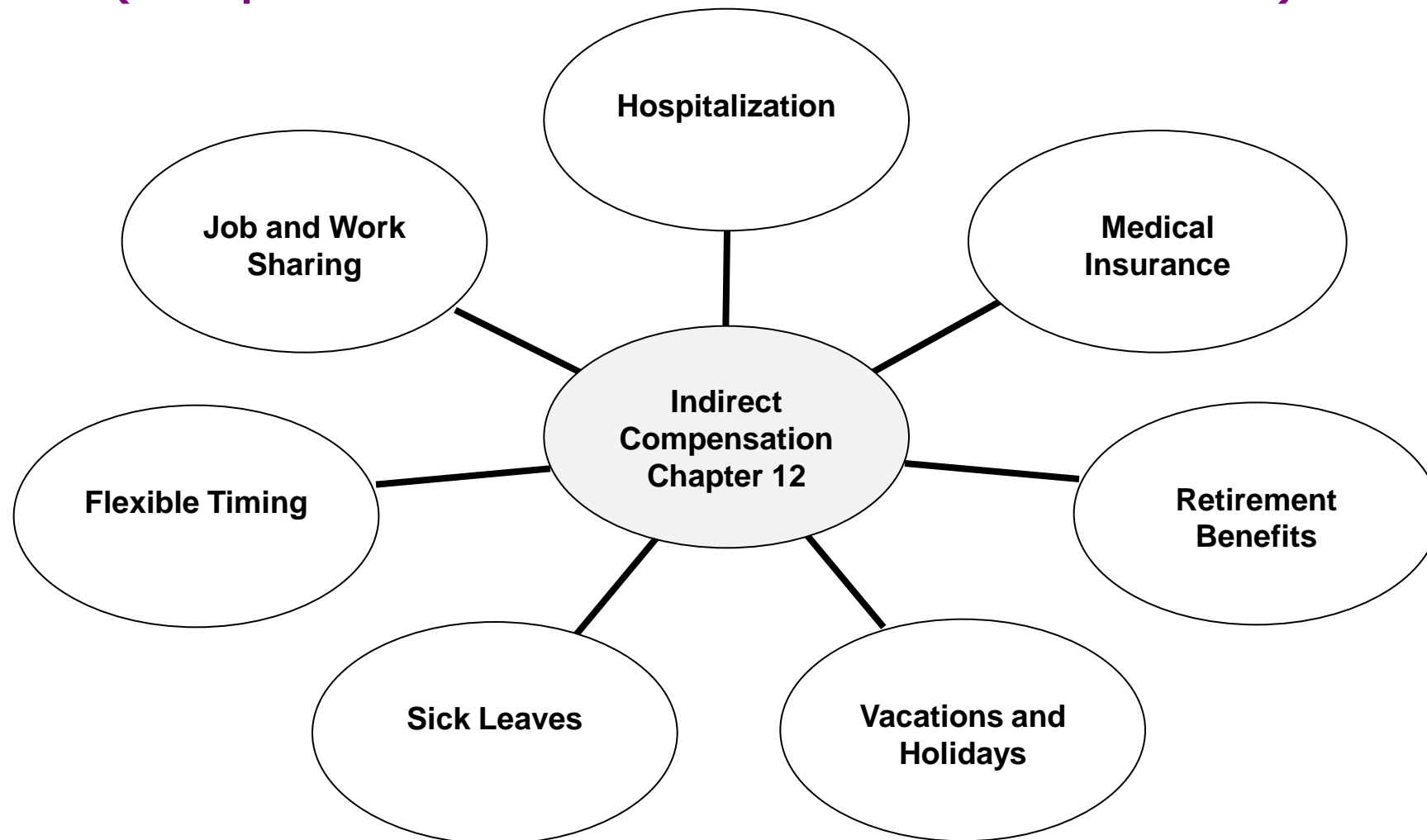
## (Chapter 11: Direct Rewards)





# Employee Compensation

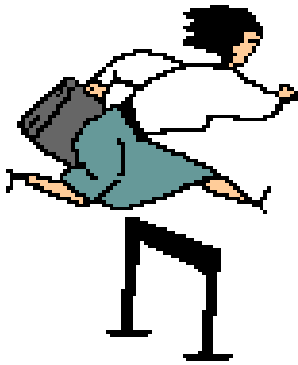
## (Chapter 12: Indirect Rewards = Benefits)







# Module Overview



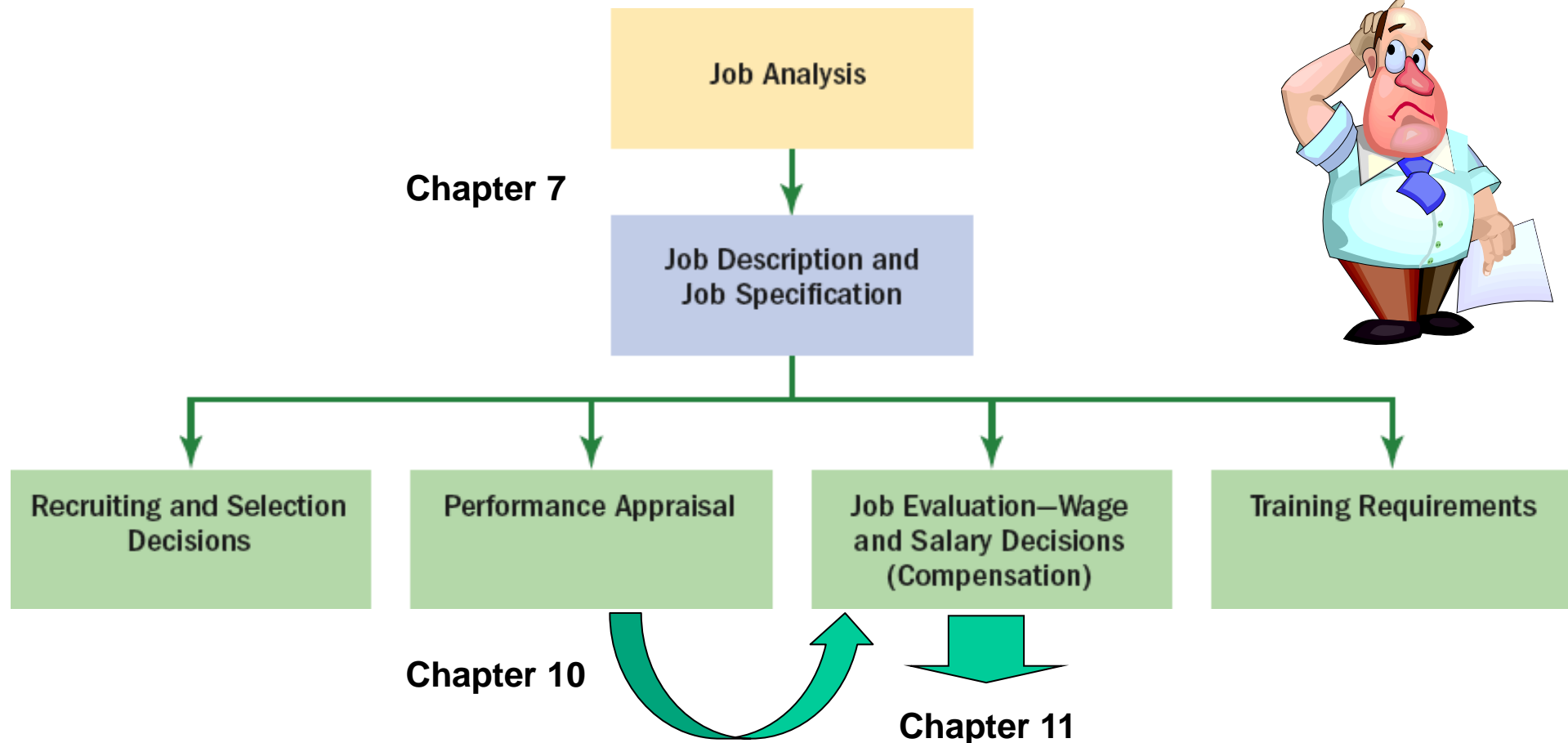
## Chapter 12: Employee Benefits

## Chapter 11: Compensation Practices, Planning and Challenges



# Modules Links

## Summary of Uses of Job Analysis Information





# Learning Outcomes

**After completing this chapter, you should be able to:**

- Describe the purposes of compensation and compensation policy in healthcare organizations
- Understand the concepts of balancing internal equity and external competitiveness in compensation
- Enumerate the objectives of job evaluation, and discuss the comparative merits of alternative approaches to job evaluation in healthcare settings





# Introduction

*Although “money is not everything” it is a significant motivator and a frequent measure of the value an employer places on jobs and jobholders*



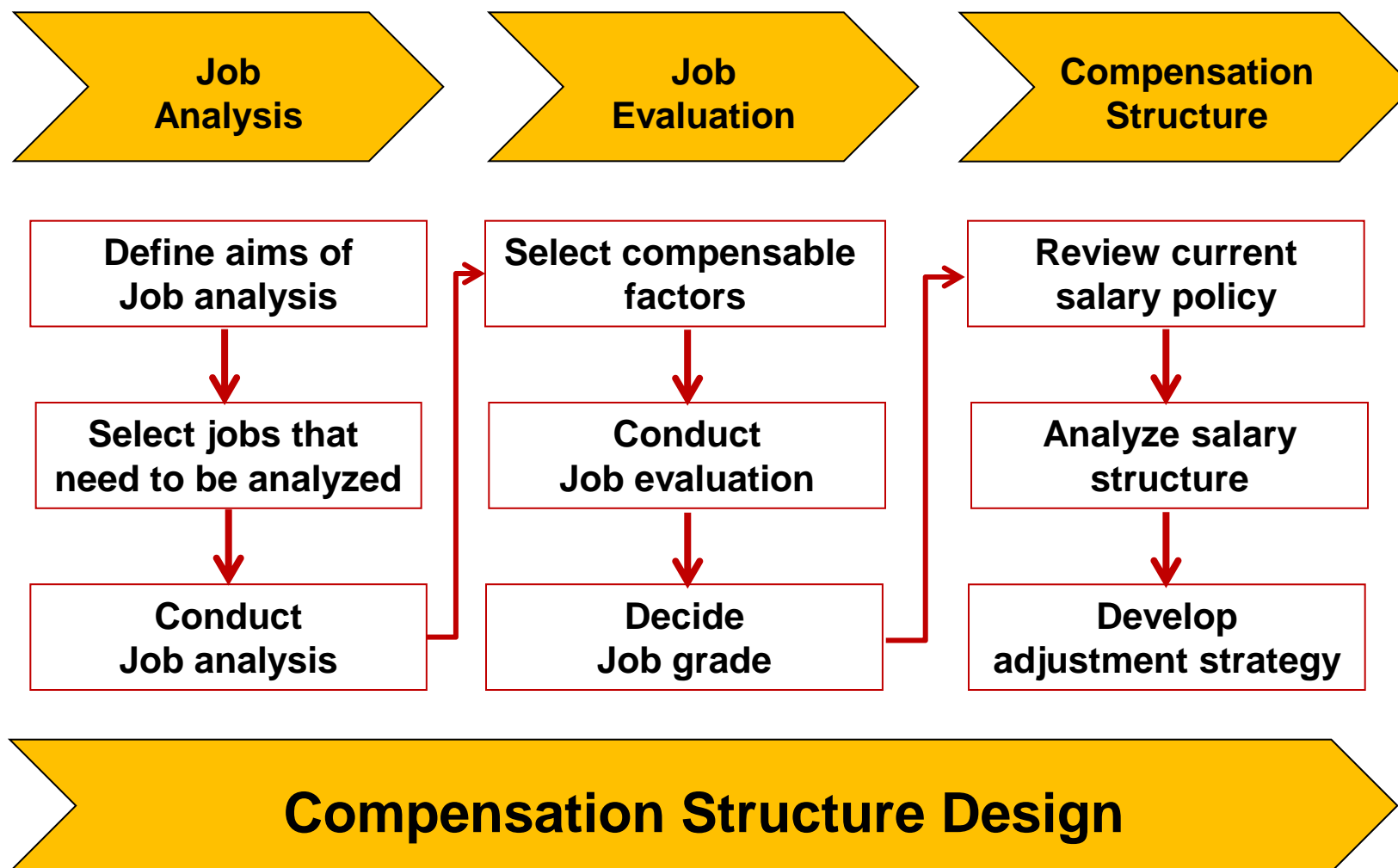


# Compensation System

- *must be externally competitive and internally equitable to allow organizations to balance what they value with how they reward employees (Kaplan & Norton 1996).*



# Process of Value Based Compensation Design





# The Strategic Role of Compensation Policy

- *Healthcare work is often extremely stressful.*
- *“Nurses and physicians are attracted to their professions because of their human caring nature” (Kingma 2003) and desire to serve the public good, and many jobs in healthcare are intrinsically rewarding.*



# The Strategic Role of Compensation Policy

- *Rewards employee performance*
- *Achieves internal equity within the organization*
- *Maintains external competitiveness in relevant markets*
- *Aligns employee behavior and performance with organizational goals*
- *Attracts and retains high-performing employees*
- *Maintains the compensation budget*
- *Complies with legal requirements*



## *Compensation Decisions & Dilemmas*

- Higher compensation offered to attract certain types of employees can disrupt internal equity.
- Determination must be made on whether to pay above, below, or at prevailing rates.
- Rewarding seniority seems to contradict the general movement toward a pay-for-performance culture





# Intrinsic Versus Extrinsic Rewards

## ➤ *Intrinsic compensation*

- is **intangible** and may include recognition such as praise from a supervisor for completing an assignment.

## ➤ *Extrinsic compensation*

- is **tangible** (and viewing compensation from a “total compensation” perspective is important) and includes direct monetary compensation (i.e., wages, salaries), benefits, payment for time not worked (e.g., vacation pay), and stock options.

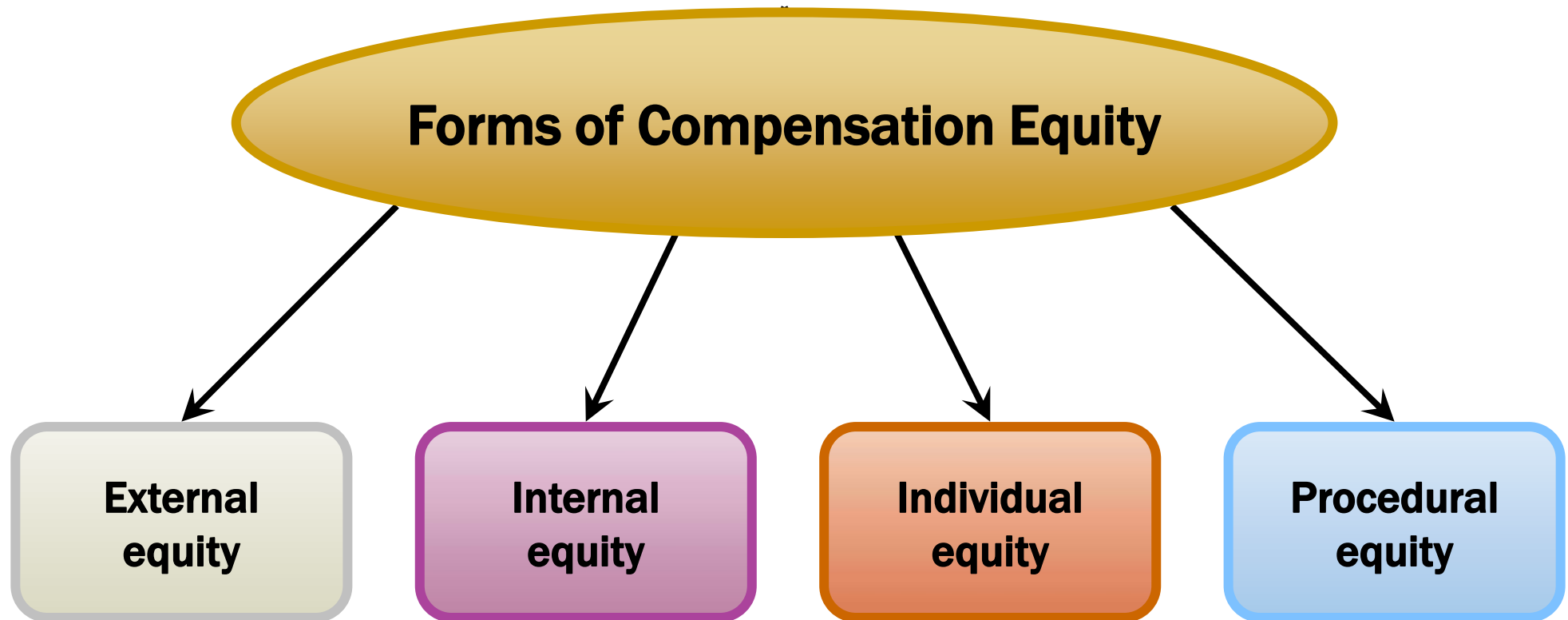


# ***Internal Equity and External Competitiveness***

- **Equity** is the perceived fairness of the relationship between what a person contributes to an organization (inputs) and what that person receives in return (outcomes).
- **Inputs** refer to such things as an individual's education, seniority, skills, effort, loyalty, and experience.
- **Outcomes** include pay, benefits, job satisfaction, opportunities for growth, and recognition.

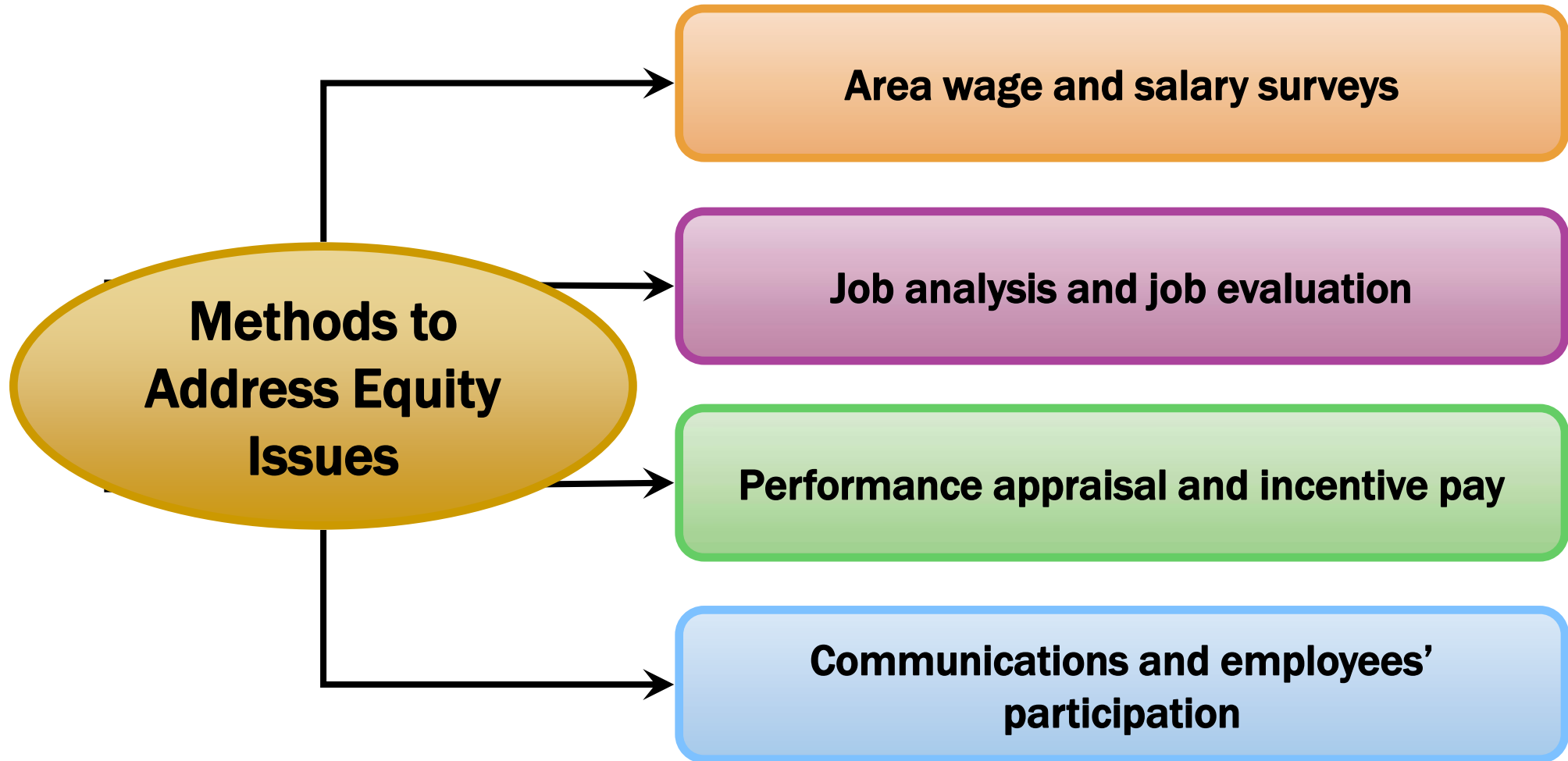


# Equity and Its Impact on Pay Rates





# Addressing Equity Issues



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<i>Equity</i>	<i>How to Address Equity Issues</i>
<i>External</i>	<i>Salary surveys</i>
<i>Internal</i>	<i>Job analysis and job evaluation</i>
<i>Individual</i>	<i>Performance appraisal and incentive pay</i>
<i>Procedural</i>	<i>Communications, grievance mechanisms, (complaints) and employees' participation</i>



# Perceived inequity comes in 2 types

## ➤ *Overpayment inequity*

- Is a person's belief that his or her ratio is greater than that of the referent.

## ➤ *Underpayment inequity*

- Is a perception that occurs when an employee finds that his or her ratio is smaller than the referent's.





# Salary Compression

- *Newly graduated nurses, for example, may be hired at a salary level that approaches the compensation of well-seasoned and experienced nurses.*





*Explain in detail how to establish pay rates.*

# Establishing Pay Rates

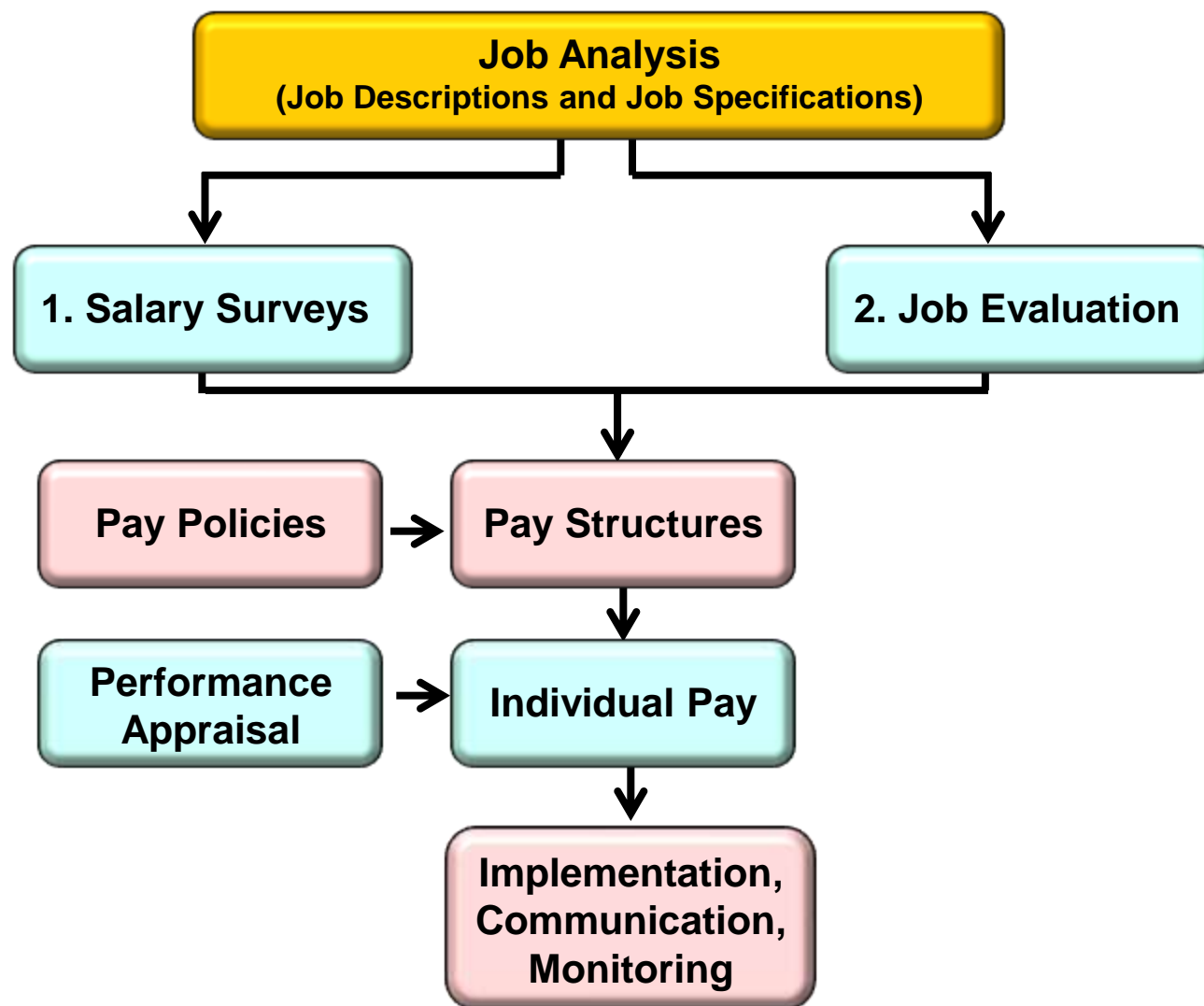


# Establishing Pay Rates

- *Step 1. The Salary Survey*
- *Step 2. Job Evaluation (4 methods)*
- *Step 3. Group Similar Jobs into Pay Grades*
- *Step 4. Price Each Pay Grade*
- *Step 5. Fine-tune Pay Rates*



# Compensation Administration Process



# Step 1: Salary Survey (External Competitiveness)

## — Why?

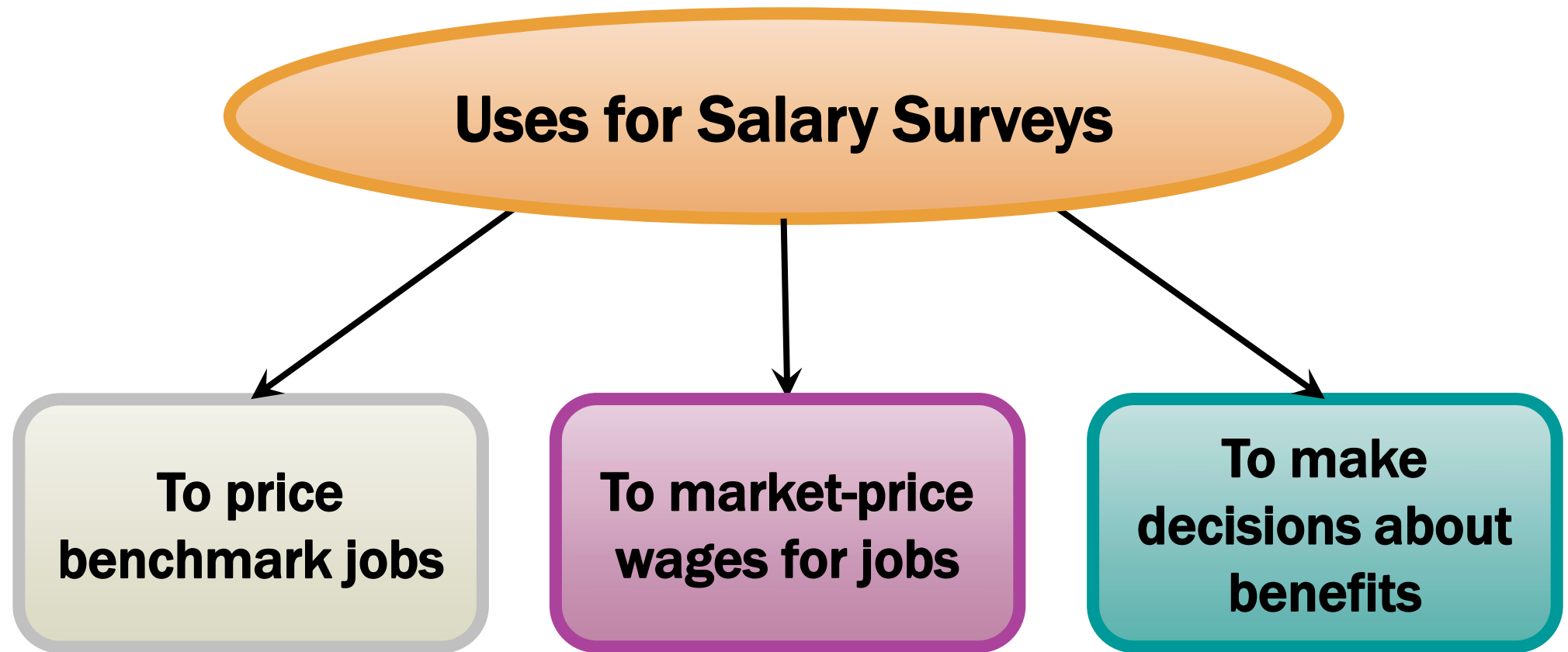
- If an organization is not externally competitive, it is likely to face problems of turnover and staff shortages.

## — How?

- Private consulting firms: The Hay Group and SHRM.
- Healthcare sector: the American Hospital Association (annual wage and salary surveys).
- The Internet: [www.salary.com](http://www.salary.com)



# Step1: The Salary Survey







# Quartiles

- *First-quartile (below-market) strategy*
  - A major disadvantage of using a first-quartile strategy is high turnover
- *Third-quartile (above-market) strategy*
  - Allows an organization to be more selective
- *Second-quartile (middle-market) strategy*
  - Most employers seek to position themselves in this quartile or higher.



# Determining the Monetary Value of Jobs

## **Step 2: Job evaluation** (Internal Equity)

### – Definition

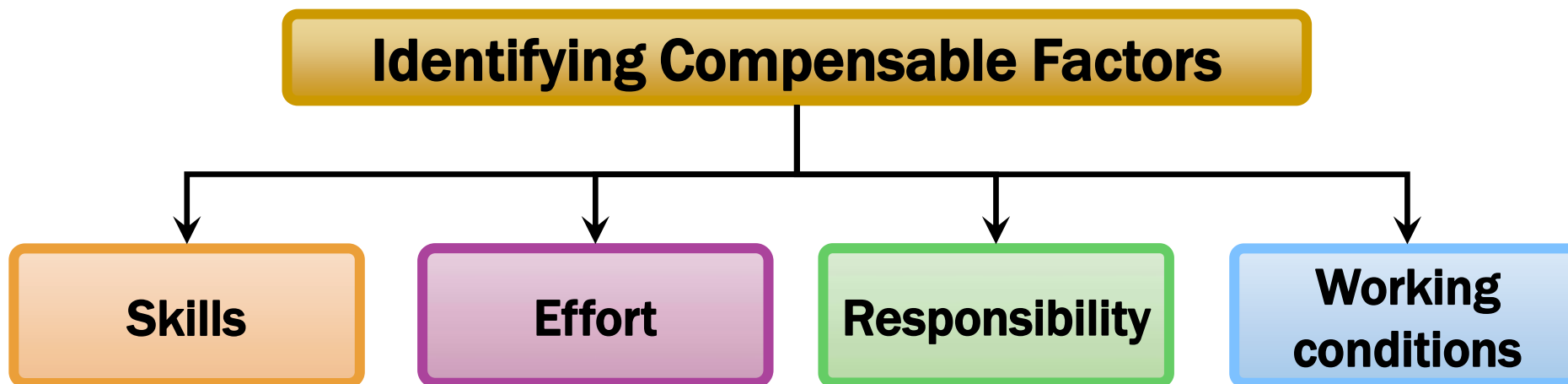
- Is a formal process for determining the value of jobs in monetary terms.

### – Rational

- Jobs that require greater qualifications, that involve more responsibility, and that assign more complex duties should pay more than jobs with lower requirements or lesser tasks

## Step 2: Job Evaluation

- In a job evaluation, a job is examined and ultimately priced according to each job's relative importance to an organization; the KSA each job requires; and the difficulty of each job (compensable factors)





# Methods of Evaluating Job Value

## *SCOPE OF COMPARISON*

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### BASIS FOR COMPARISON

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**JOB AS  
A WHOLE  
(NONQUANTITATIVE)**

**JOB PARTS  
OR FACTORS  
(QUANTITATIVE)**

**Job vs. job**

**A. Job Ranking**

**D. Factor Comparison**

**Job vs. scale**

**B. Job Classification**

**C. Point Method**



## 2. Job Evaluation: A. Job Ranking

### ➤ *How?*

- The entire job, rather than individual components of the job (compensable factors), is considered.
- Each rater is given a set of cards with a brief job descriptions, and they are asked to rank these cards from lowest to highest.

### ➤ *Cons*

- Ranking is based upon judgment (subjectivity)
- Difficult to explain
- Non-quantitative
- Not suitable for large organizations



## Job Ranking by Olympia Health Care

Ranking Order	Annual Pay Scale
1. Office manager	\$43,000
2. Chief nurse	42,500
3. Bookkeeper	34,000
4. Nurse	32,500
5. Cook	31,000
6. Nurse's aide	28,500
7. Orderly	25,500

## 2. Job Evaluation: B. Job Classification

### ➤ *How?*

- Job classification categorizes jobs based on pre-determined requirements.

### ➤ *Uses*

- This approach is most common in the public sector, where jobs are classified according to the federal government's **General Schedule** (GS) of 18 grades





## 2. Job Evaluation: B. Job Classification

Grade	Nature of Assignment	Level of Responsibility
GS-7	Performs specialized duties in a defined functional or program area involving a wide variety of problems or situations; develops information, identifies interrelationships, and takes actions consistent with objectives of the function or program served.	Work is assigned in terms of objectives, priorities, and deadlines; the employee works independently in resolving most conflicts; completed work is evaluated for conformance to policy; guidelines, such as regulations, precedent cases, and policy statements require considerable interpretation and adaptation.

➤ *Pros:*

1. End up with grouping jobs into grades.
2. Simple method which takes less time.

➤ *Cons:*

1. Difficult to write grades description.
2. Not quantitative.



## 2. Job Evaluation: C. Point Method

- *A basic assumption behind this method is that organizations do not pay for jobs but for specific aspects of these jobs, known as compensable factors.*
  - Identifying several compensable factors, each with several degrees.
  - Identifying the degree to which each compensable factors are present in the job.
  - Awarding points for each degree of each factor.
  - Calculating a total point value for the job by adding up the corresponding points for each factor.



## Point Values for Job Factors of the American Association of Industrial Management

FACTORS	1ST DEGREE	2ND DEGREE	3RD DEGREE	4TH DEGREE	5TH DEGREE
<b>Skill</b>					
1. Education	14	28	42	56	70
2. Experience	22	44	66	88	110
3. Initiative	14	28	42	56	70
<b>Effort</b>					
4. Physical demand	10	20	30	40	50
5. Mental or visual demand	5	10	15	20	25
<b>Responsibility</b>					
6. Equipment or process	5	10	15	20	25
7. Material or product	5	10	15	20	25
8. Safety of others	5	10	15	20	25
9. Work of others	5	10	15	20	25
<b>Job Conditions</b>					
10. Working conditions	10	20	30	40	50
11. Hazards	5	10	15	20	25

Source: Reproduced with permission of the American Association of Industrial Management, Springfield, Mass.

## Job Evaluation Points

Grade	Point Range	Minimum Pay	Midpoint Pay	Maximum Pay
1	< 300	6.94	8.50	10.06
2	300 – 329	7.96	9.75	11.54
3	330 – 359	8.98	11.00	13.02
4	360 – 389	10.00	12.25	14.5
5	390 – 419	11.01	13.49	15.97
6	420 – 449	11.79	14.74	17.69
7	> 450	12.79	15.99	19.18



The mental capacity required to perform the given job as expressed in resourcefulness in dealing with unfamiliar problems, interpretation of data, initiation of new ideas, complex data analysis, creative or developmental work.

Level	Point Value	Description of Characteristics and Measures
0	0	Seldom confronts problems not covered by job routine or organizational policy; analysis of data is negligible. <i>Benchmark:</i> Telephone operator/receptionist.
1	40	Follows clearly prescribed standard practice and demonstrates straightforward application of readily understood rules and procedures. Analyzes noncomplicated data by established routine. <i>Benchmark:</i> Statistical clerk, billing clerk.
2	80	Frequently confronts problems not covered by job routine. Independent judgment exercised in making minor decisions where alternatives are limited and standard policies established. Analysis of standardized data for information of or use by others. <i>Benchmark:</i> Social worker, executive secretary.
3	120	Exercises independent judgment in making decisions involving nonroutine problems with general guidance only from higher supervision. Analyzes and evaluates data pertaining to nonroutine problems for solution in conjunction with others. <i>Benchmark:</i> Nurse, accountant, team leader.
4	160	Uses independent judgment in making decisions that are subject to review in the final stages only. Analyzes and solves nonroutine problems involving evaluation of a wide variety of data as a regular part of job duties. Makes decisions involving procedures. <i>Benchmark:</i> Associate director, business manager, park services director.
5	200	Uses independent judgment in making decisions that are not subject to review. Regularly exercises developmental or creative abilities in policy development. <i>Benchmark:</i> Executive director.



## 2. Job Evaluation: C. Point Method

### ➤ *Pros:*

1. Accurate and systematic
2. Quantitative (ends up with numerical values)
3. Fairly easy to explain

### ➤ *Cons:*

1. Complexity – expensive
2. Difficult to build one – time consuming
3. The compensable factors may differ from one organization to another



## 2. Job Evaluation: D. Factor Comparison

### ➤ *What?*

- Is a combination of the ranking and point methods.
- It differs from point systems in that compensable factors for a job are evaluated against compensable factors in **benchmark jobs** in the organization. (job-to-job)
- Benchmark jobs are typically evaluated against a set of compensable factors, such as skill, mental effort, physical effort, responsibilities, and working conditions.





## 2. Job Evaluation: D. Factor Comparison

### ➤ *Pros*

- Tailored to one organization and it indicates which jobs are worth more and how much more, making factor values more easily converted into monetary wages

### ➤ *Cons*

- Complexity
- Time required to establish comparable factors
- Difficulty explaining the methodology to employees

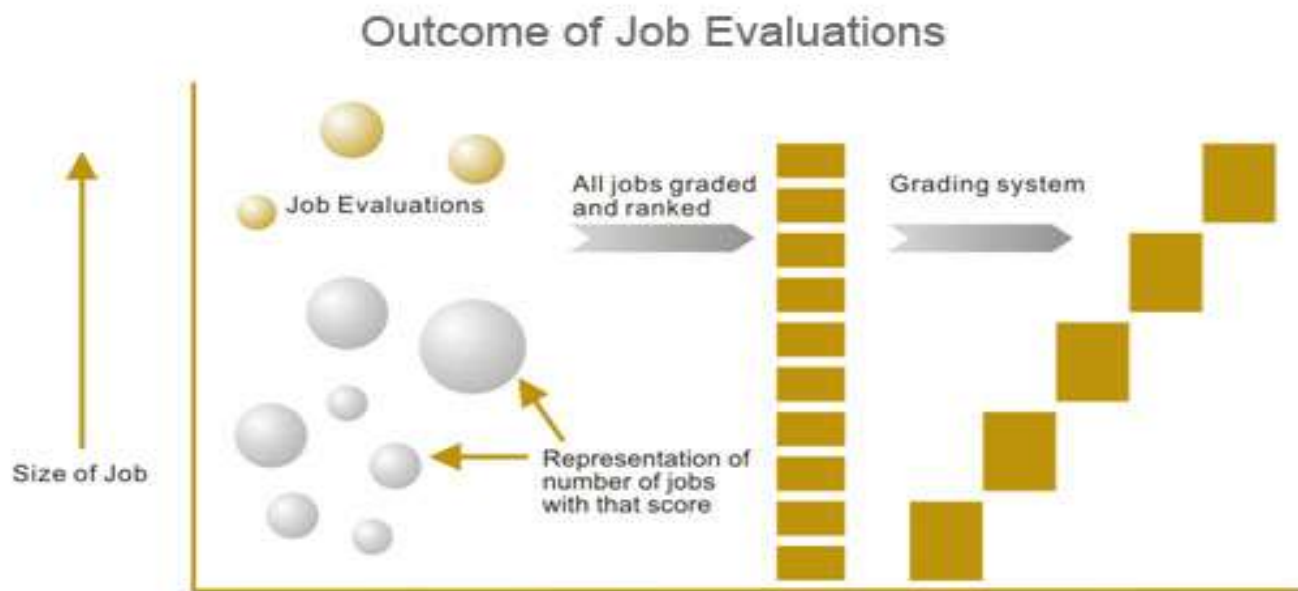
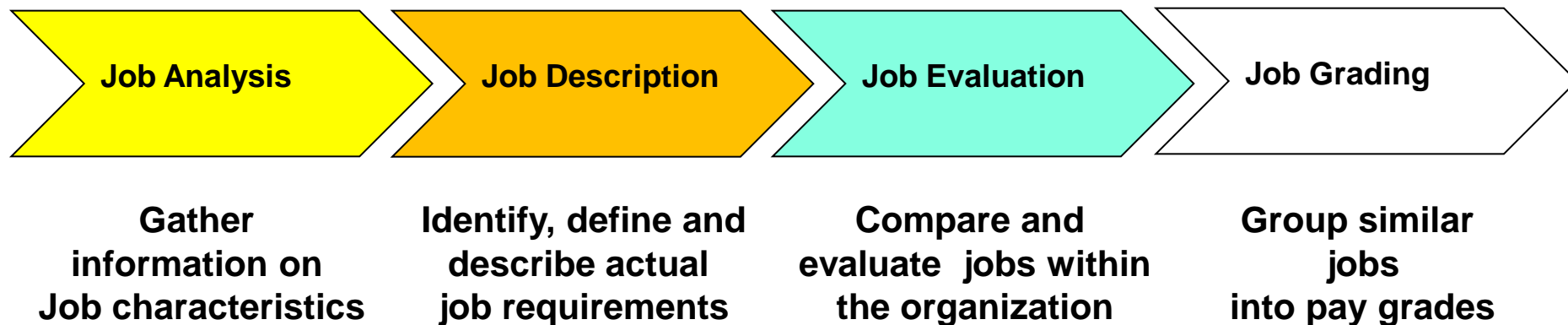


## Step 3: Group Similar Jobs into Pay Grades

- A pay grade is comprised of jobs of approximately equal difficulty or importance as established by job evaluation.
  - **A. Ranking method:** the grade consists of all jobs that fall within two or three ranks.
  - **B. Classification method:** automatically categorizes jobs into classes or grades.
  - **C. Point method:** the pay grade consists of jobs falling within a range of points.
  - **D. Factor comparison:** the grade is a specified range of pay rates.



## Step 3: Group Similar Jobs into Pay Grades



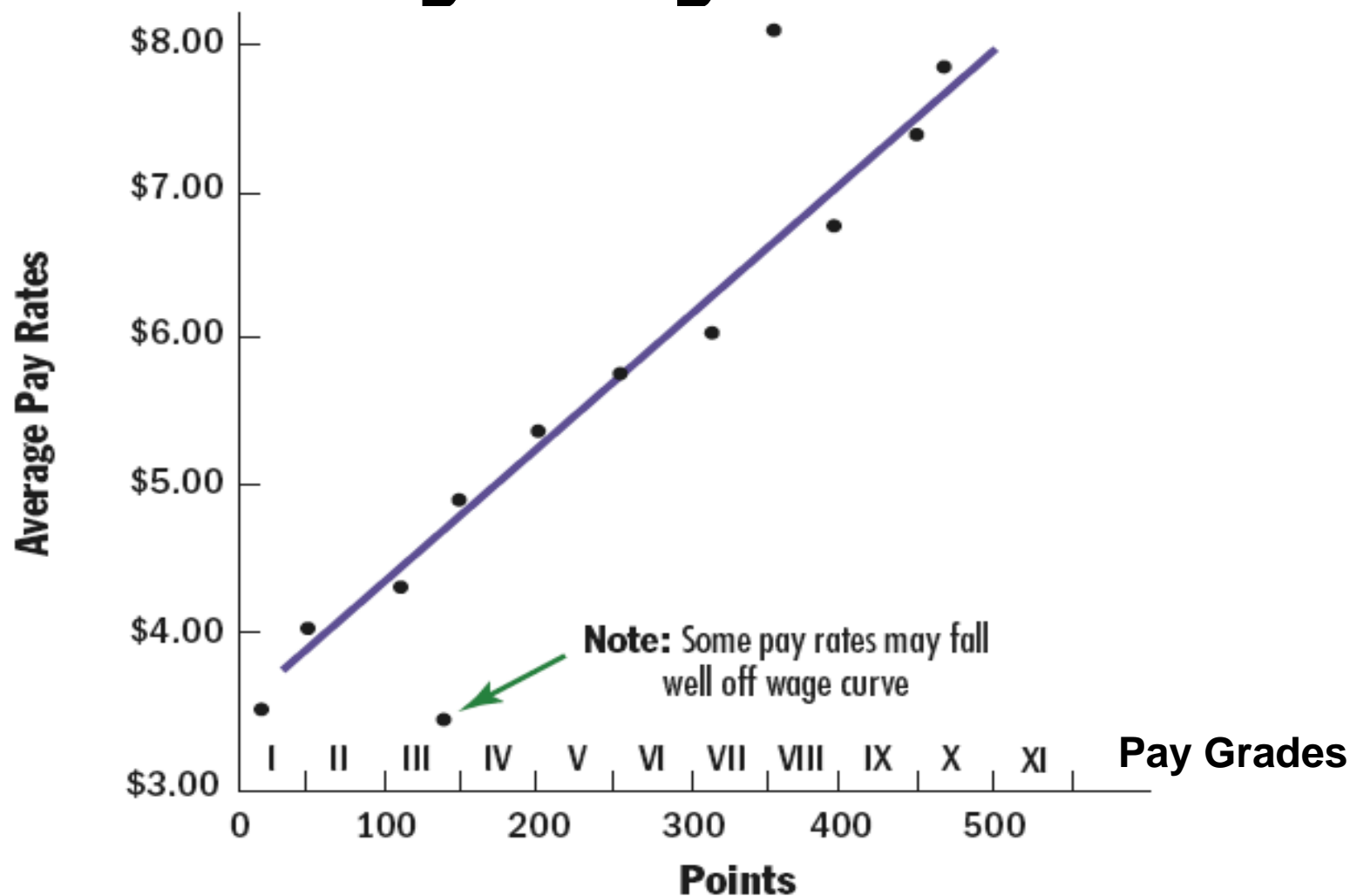


## Step 4: Price Each Pay Grade (Wage Curve)

- Shows the pay rates **currently** paid for jobs in each pay grade, relative to the points or rankings assigned to each job or grade by the job evaluation.
- Shows the relationships between the value of the job as determined by one of the job evaluation methods (e.g. points) and the **current** average pay rates for your grades (e.g. in \$).



# Plotting a Wage Curve





# Market Pricing (Salary Survey)

- *The approaches to valuing jobs discussed in this section focus almost exclusively on ensuring equity within the workplace. However, clearly, the compensation that an organization, particularly in healthcare, offers is often heavily dependent on labor supply and market wages.*

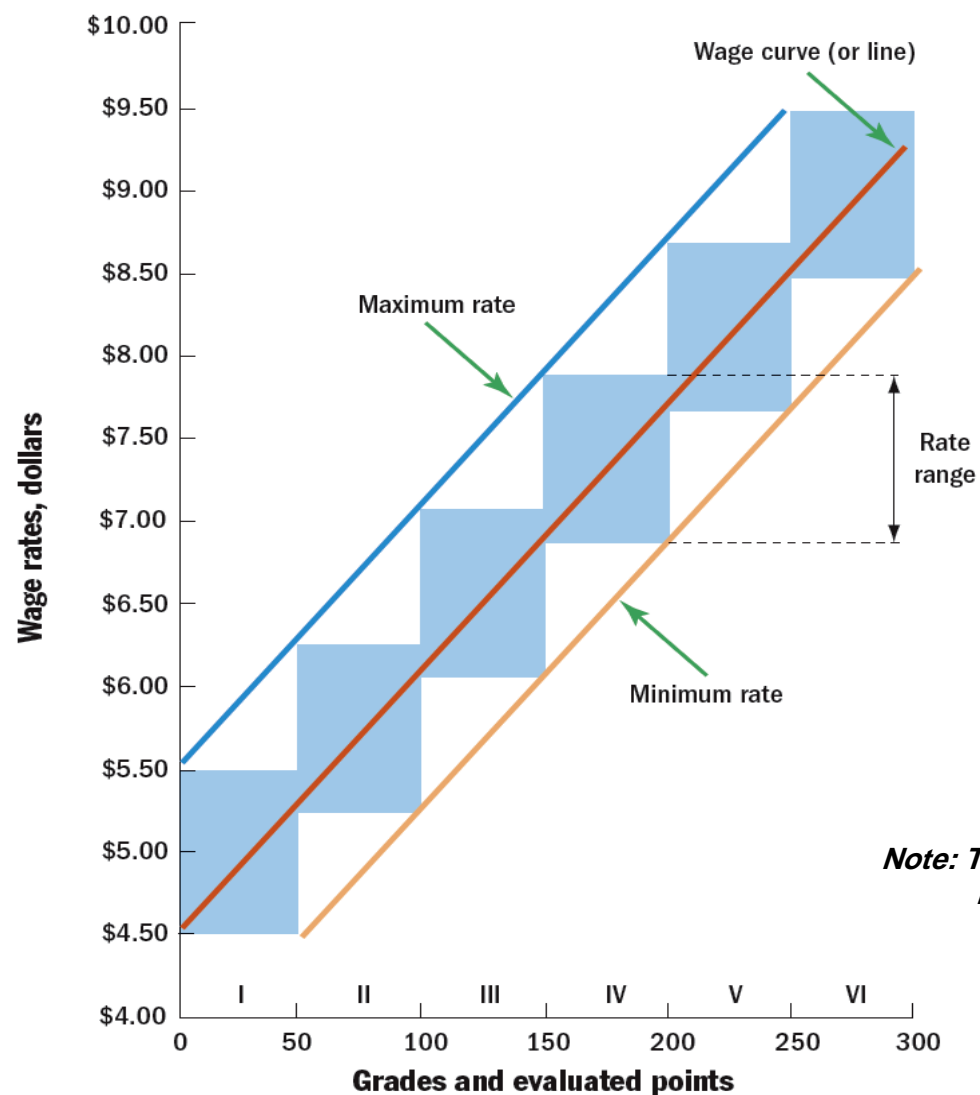


## Step 5: Fine-tune pay rates

- **Developing pay ranges** (% above and below the wage line)
  - Flexibility in meeting external job market rates
  - Easier for employees to move into higher pay grades
  - Allows for rewarding performance differences and seniority (based on years of service)
  
- **Correcting out-of-line rates**
  - Raising underpaid jobs to the minimum of the rate range for their pay grade.
  - Freezing rates or cutting pay rates for overpaid (“red circle”) jobs to maximum in the pay range for their pay grade.



## Wage Structure



*Note: This shows overlapping wage classes and maximum-minimum wage ranges.*



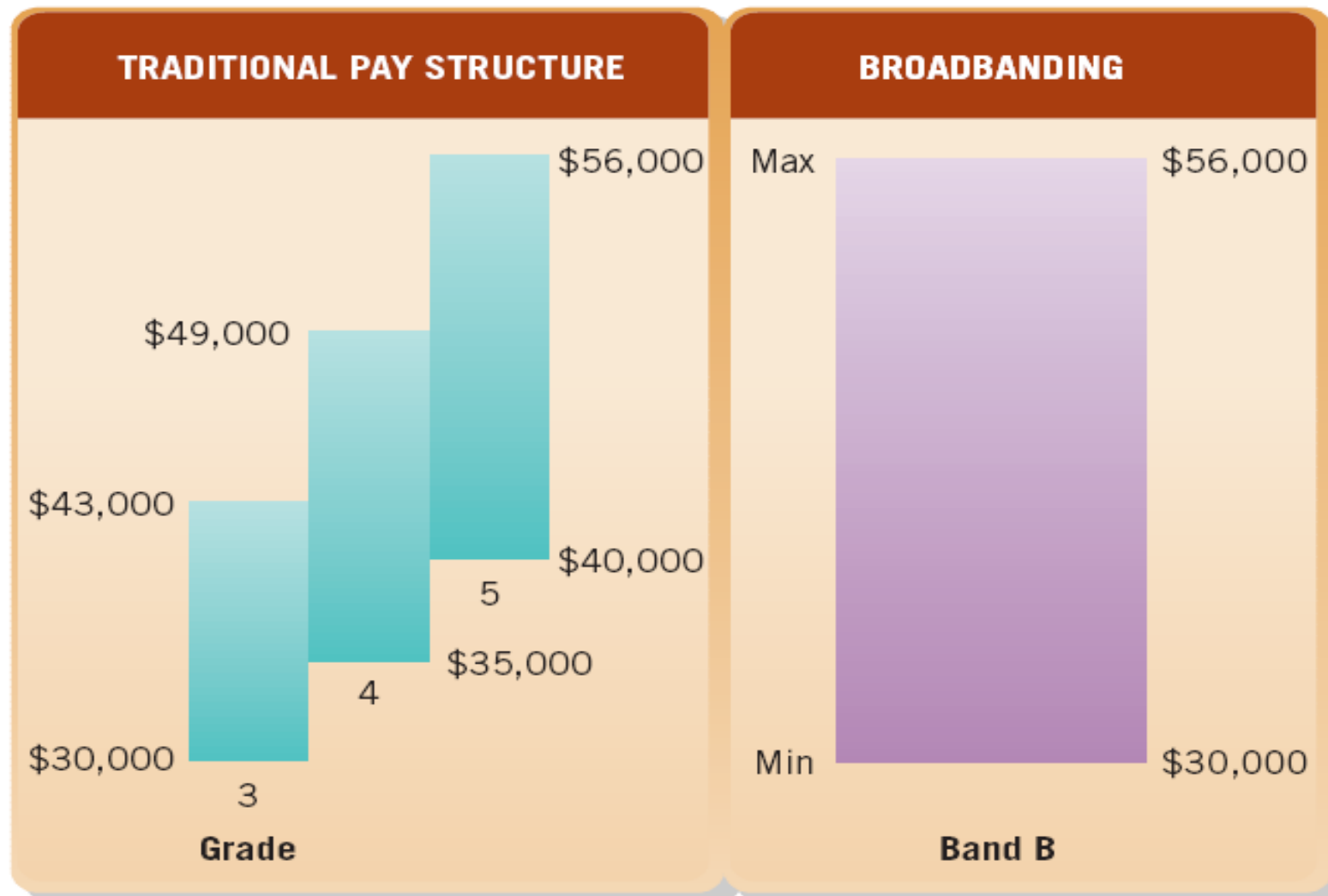
# Other Compensation Trends

## ➤ 1. *Broadbanding*

- Consolidating (collapsing) salary grades and ranges into just a few wide levels or “bands,” each of which contains a relatively wide range of jobs and salary levels.
- Pros:
  - Wide bands provide for more flexibility
  - Increase employee mobility
  - Decrease number of job grades
- Cons:
  - Lacks a salary control system
  - Difficult to maintain a sense of equity
  - Decrease opportunity for promotion
  - Can lead to divergence from the market



**FIGURE 13-6** *Traditional Pay Structure vs. Broadbanding*





# Other Compensation Trends

## ➤ *2. Skills / Competency-Based Pay*

### *What*

Employees are paid according to work-related skills and competencies rather than job titles.

### *How?*

Typically, the employees begin at a base pay level and are given the opportunity to increase their compensation by acquiring new skills, knowledge, or competencies, thereby making themselves more valuable to the organization (Baca and Starzmann 2006).



# Other Compensation Trends

## ➤ *2. Skills / Competency-Based Pay*

### ➤ *Pros*

- Higher quality
- Lower absenteeism and fewer accidents

### ➤ *Cons*

- Pay program implementation problems
- Cost implications of paying for unused knowledge, skills and behaviors
- Complexity of program
- Uncertainty that the program improves productivity



*Home Assignment*

# ANALYZING WAGE SURVEY